

## Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W  
----- 086100

R 231938Z SEP 75  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 3104  
INFO AMEMBASSY BRUSSELS  
AMEMBASSY COPENHAGEN  
AMEMBASSY DUBLIN  
AMEMBASSY THE HAGUE  
AMEMBASSY LONDON  
AMEMBASSY LUXEMBOURG  
AMEMBASSY PARIS  
AMEMBASSY ROME  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 01 OF 03 BONN 15635

EXDIS

DEPARTMENT PASS TREASURY FOR UNDER SECRETARY YEO  
AND ASSISTANT SECRETARY COOPER

E.O. 11652: XGDS-1  
TAGS: EFIN, GW  
SUBJECT: FINANCIAL ISSUES THE CHANCELLOR MAY RAISE  
ON HIS US VISIT : VIEWS OF FINANCE MINISTRY  
STATE SECRETARY POEHL

### A. SUMMARY

1. IN A WIDE-RANGING AND VERY FRANK CONVERSATION  
WITH ME TODAY, FINANCE MINISTRY STATE SECRETARY POEHL  
REVIEWED THE ECONOMIC ISSUES CHANCELLOR SCHMIDT IS  
LIKELY TO RAISE WITH OFFICIALS AND OTHER CONTACTS HE  
MAY HAVE DURING HIS UPCOMING VISIT TO THE US. POEHL  
ALSO GAVE ME HIS PERSONAL VIEWS ON THESE AND OTHER  
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INTERNATIONAL FINANCIAL QUESTIONS.

2. ACCORDING TO POEHL, THE CHANCELLOR CONTINUES TO FEAR THAT HIGH US INTEREST RATES MAY HALT OR REVERSE THE US RECOVERY SO IMPORTANT TO THE WORLD ECONOMY. HE ALSO IS QUITE CONCERNED REGARDING THE IMPACT OF A POSSIBLE BANKRUPTCY OF NEW YORK CITY ON FINANCIAL MARKETS ALL OVER THE WORLD. AID POLICY AND THE PRICE OF GOLD ARE ALSO LIKELY TO BE ON THE CHANCELLOR'S MIND. ON INTERNATIONAL MONETARY REFORM HE PROBABLY WILL SEEK A COMPROMISE BETWEEN US AND FRENCH VIEWS THROUGH SOME MEANS OF REDUCING EXTREME SWINGS IN EXCHANGE RATES BETWEEN THE EC SNAKE AND THE DOLLAR BLOC. END SUMMARY.

B. US INTEREST RATE POLICY AND THE STATE OF THE US ECONOMY

3. THE CHANCELLOR CONTINUES TO BE SLEWHT CHAGRINED AT THE LACK OF POSITIVE RESPONSE TO HIS EARLIER URGING IN CONVERSATION WITH PRESIDENT FORD AND OTHERWISE OF A COORDINATED POLICY OF INTEREST RATE REDUCTIONS ON BOTH SIDES OF THE ATLANTIC. POEHL FELT THAT THE CHANCELLOR PROBABLY WOULD NOT REVIVE THIS IDEA DURING HIS US VISIT AND OBSERVED THAT FROM ONE POINT OF VIEW THE HIGHER US INTEREST RATES AT THE MOMENT WORKED TO THE INTEREST OF THE FEDERAL REPUBLIC IN THE PRESSURE THEY BROUGHT ON THE DM (BUT SEE ALSO SECTION F BELOW) AND THE HELP THEY THUS PROVIDED FOR GERMAN EXPORTS. BUT THE CHANCELLOR, AS WELL AS THE FINANCE MINISTRY, NEVERTHELESS REMAINED VERY CONCERNED ABOUT US INTEREST RATE POLICY. LOOKING AT THE US ECONOMY FROM AFAR, THEY FOUND IT DIFFICULT TO UNDERSTAND THE NEED FOR THE RECENT INTEREST RATE INCREASES. THE

NOTE BY OC/T: NOT PASSED ABOVE ADDEES.

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W  
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R 231938Z SEP 75  
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TO SECSTATE WASHDC 3105  
INFO AMEMBASSY BRUSSELS  
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US INFLATION RATE WAS RELATIVELY MODEST AND RECENT INCREASES CAUSED MAINLY BY AGRICULTURAL PRICES AND OTHER FACTORS WHICH CANNOT BE EFFECTIVELY COMBATTED BY INTEREST RATE INCREASES. IT WOULD BE A MAJOR TRAGEDY FOR THE WORLD ECONOMY IF THE HESITANTLY EMERGING RECOVERY IN THE US WOULD BE BROUGHT TO A HALT BY THESE INTEREST RATE INCREASES. THIS WAS VERY MUCH ON THE CHANCELLOR'S MIND.

C. THE POSSIBLE BANKRUPTCY OF NEW YORK CITY

4. POEHL SAID THAT HE WAS CONVINCED THAT IF NEW YORK CITY WAS ALLOWED TO GO BANKRUPT THIS WOULD HAVE MAJOR REPERCUSSIONS THROUGHOUT THE WORLD ECONOMY AND COULD WELL LEAD TO A "BLACK MONDAY" EVEN IF THE FEDERAL RESERVE TOOK ACTION TO SHIELD THE BANKS FROM THE DIRECT EFFECTS ON THEIR LIQUIDITY. HE KNEW THAT THE CHANCELLOR SHARED HIS CONCERN AND FOUND IT DIFFICULT TO UNDERSTAND THAT THE US FEDERAL AUTHORITIES  
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APPARENTLY MIGHT BE WILLING TO LET IT HAPPEN.

D. AID TO THE DEVELOPING COUNTRIES

5. POEHL SAID THAT WHILE HE KNEW THE CHANCELLOR'S CONCERN WITH THIS SUBJECT, HE WAS LESS SURE OF THE POSITION HE WOULD TAKE. THE FORMULATION OF GERMAN AID POLICY HAS BECOME SOMEWHAT CONFUSING AND UNPREDICTABLE AS EGON BAHR AND GENSCHER ASSERT THEIR INFLUENCE. BAHR, POEHL OBSERVED, WAS AS TRICKY IN THIS FIELD AS IN ALL OTHERS AND NEITHER GENSCHER NOR BAHR HAD ANY UNDERSTANDING OF THE UNDERLYING FINANCIAL ISSUES

INVOLVED. AS AN ILLUSTRATION, POEHL MENTIONED THE RECENT UN SPEECH IN WHICH GENSCHER GAVE UP THE GERMAN RESERVATION ON AN SDR/AID LINK. THE GERMAN DELEGATION HAD GONE TO NEW YORK WITH INSTRUCTIONS TO MAINTAIN THE GERMAN RESERVATION WHICH HAD BEEN CLEARED BY THE CHANCELLOR. BUT IN NEW YORK GENSCHER DECIDED TO ABANDON THIS RESERVATION. POEHL OBJECTED. THE CHANCELLOR WAS CALLED IN THE MIDDLE OF THE NIGHT AND DECIDED IN FAVOR OF GENSCHER. POEHL CONSIDERS THIS DECISION A MAJOR MISTAKE WHICH, UNLESS THE US HOLDS OUT, WILL PREVENT THE SDR FROM BECOMING THE STABLE CENTER OF THE INTERNATIONAL MONETARY SYSTEM.

6. AT THE IMF MEETING THE DECISION WENT THE OTHER WAY. THE GERMAN DELEGATION ARRIVED WITH A FULLY CLEARED POSITION (RELUCTANTLY CONCURRED IN BY KLASSEN) FOR A SPECIAL SDR ALLOCATION FOR THE MOST NEEDED LDC'S. THE DUTCH PREMIER HAD SOLD THIS TO SCHMIDT DURING HIS SUMMER VISIT ON THE GROUNDS THAT IT WOULD HELP CREATE DEMAND FOR INDUSTRIAL EXPORTS AND THUS HELP ECONOMIC RECOVERY. POEHL, WHO HAD GONE TO WASHINGTON AHEAD OF TIME, OBJECTED AND HE AND APEL SUCCEEDED IN GETTING THE CHANCELLOR TO REVERSE THE GERMAN POSITION.

7. POEHL CONTINUED THAT HE FELT THAT THE WHOLE PROBLEM OF AIDING THE LDC'S WAS MOST CLOSELY TIED TO THE GOLD PRICE QUESTION. ALL OF THE VARIOUS FUNDS PROPOSED BY THE US AND OTHERS HAD TO BE FINANCED SOME-  
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HOW AND WITHOUT THE USE OF PROFITS FROM THE SALE OF IMF GOLD SUCH FINANCING WAS FAR FROM ASSURED. HE, POEHL, THEREFORE FOUND IT VERY DIFFICULT TO UNDERSTAND RECENT US ACTIONS DESIGNED TO DRIVE THE GOLD PRICE DOWN. HE MENTIONED THE FEDERAL RESERVE PARTICULARLY IN THIS REGARD, BUT BEYOND MENTIONING SOME INFORMAL STATEMENTS DID NOT SPECIFY IN JUST WHAT WAY THE US WAS INFLUENCING THE GOLD PRICE OTHER THAN TO INDICATE HIS FEELING THAT "SOMETHING WAS GOING ON." POEHL SAID HE FELT THAT THIS WAS NOT A VERY WISE POLICY. IT PROBABLY WILL PREVENT ANY GOLD SALES BY THE IMF. THE FRENCH ARE FURIOUS AND WILL USE ALL OF THEIR PROCEDURAL SKILLS TO PREVENT ANY ACTION BY THE IMF. ON THE GOLD QUESTION, TOO, POEHL INDICATED THAT HE IS UNSURE OF THE CHANCELLOR'S FINAL POSITION. ON THE ONE HAND, THE CHANCELLOR WILL BE STRONGLY INFLUENCED BY THE SAME CONSIDERATIONS AS POEHL AND BY THE FRENCH POSITION. ON THE OTHER HAND, KLASSEN IS WELCOMING THE DROP IN THE PRICE OF GOLD AS ANTI-INFLATIONARY AND

ALSO HAS CONSIDERABLE INFLUENCE IN THIS FIELD WITH THE  
CHANCELLOR.

E. INTERNATIONAL MONETARY REFORM

8. POEHL SAID THAT HE HAD FURNISHED THE CHANCELLOR

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 3106

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C O N F I D E N T I A L SECTION 03 OF 03 BONN 15635

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WITH A COUPLE OF PAGES FOR HIS NEW YORK SPEECH ON  
INTERNATIONAL MONETARY REFORM. HE WAS NOT SURE  
WHETHER THE CHANCELLOR WOULD USE THEM IN THIS NEW YORK  
SPEECH, BUT HE WAS REASONABLY SURE THAT THEY WOULD  
REPRESENT THE GERMAN POSITION IN FUTURE INTERNATIONAL  
DISCUSSIONS. IN THIS CONNECTION, POEHL SAID THAT THE  
FRENCH WERE CONTINUING TO INSIST VERY STRONGLY ON THE  
MONETARY SUMMIT. THE CHANCELLOR, TOO, FAVORED IT AND  
POEHL THOUGHT THAT IT WOULD TAKE PLACE.

9. THE GERMAN POSITION POEHL OUTLINED PROCEEDED FROM THE PROPOSITION THAT THE WORLD NOW IS NEITHER ON A FIXED NOR ON A FLEXIBLE EXCHANGE RATE STANDARD. THERE ARE BLOCS WITH RELATIVELY FIXED RATES BETWEEN THEIR MEMBERS SUCH AS THE EC SNAKE COUNTRIES AND THE DOLLAR AREA. BETWEEN THE BLOCS THERE IS FLEXIBILITY. POEHL THOUGHT THAT A VIABLE COMPROMISE BETWEEN THE US AND THE FRENCH VIEW WOULD BE TO RECOGNIZE THIS AND NOW  
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CONCENTRATE ON METHODS OF NARROWING SOMEWHAT THE EXTREMELY WIDE EXCHANGE RATE FLUCTUATIONS BETWEEN THESE BLOCS BY SOMEWHAT LARGER INTERVENTIONS AT THE MARGINS.

F. THE DOLLAR

10. POEHL DID NOT THINK THAT THE CHANCELLOR WOULD BRING THE DOLLAR/DM EXCHANGE RATE UP DURING HIS VISIT. POEHL HIMSELF THOUGHT THAT THE PRESENT STRENGTH OF THE DOLLAR STEMMED MAINLY FROM THE STRONG US BALANCE OF PAYMENTS. HE THOUGHT THAT INTEREST RATE DIFFERENTIALS PLAYED ONLY A RELATIVELY SUBORDINATE ROLE AND AS EVIDENCE CITED THE FACT THAT THE LARGE GERMAN/FRENCH INTEREST RATE DIFFERENTIAL RESULTED IN MUCH LESS STRENGTH OF THE FRENCH FRANC VIS-A-VIS THE DM.

11. POEHL THOUGHT THAT AS LONG AS THE US BALANCE OF PAYMENTS STAYED STRONG, SO WOULD THE DOLLAR. CENTRAL BANKS HAD NO DESIRE TO LOSE THEIR DOLLARS AND IT WAS ENTIRELY POSSIBLE THAT IN THE FUTURE THERE WOULD AGAIN DEVELOP A DOLLAR SHORTAGE WITH THE DOLLAR APPRECIATING BEYOND A POINT DESIRED EITHER BY THE US OR THE EUROPEANS. FOR THE TIME BEING, HOWEVER, A STRONG DOLLAR WAS MOST BENEFICIAL TO THE WORLD BOTH POLITICALLY AND ECONOMICALLY.

12. POEHL ALSO SPECULATED THAT WITH THE WEAKENING OF THE STABILITY OF THE SDR THROUGH THE AID LINK, THE DOLLAR MIGHT REMAIN THE MAIN INTERNATIONAL RESERVE CURRENCY. HE DID NOT THINK THIS ENTIRELY DESIRABLE AND THOUGHT THAT ON THE ONE HAND IT MIGHT THEREFORE ALSO BE IN THE EUROPEAN INTEREST TO MAINTAIN SOME MONETARY ROLE FOR GOLD AND ON THE OTHER TO PROMOTE SOME EUROPEAN RESERVE CURRENCY (OR CURRENCIES). SOME ASSET DIVERSIFICATION BY THE BUNDESBANK, POSSIBLY INTO IMF SECURITIES BEARING COMMERCIAL INTEREST RATES, MIGHT BE A DESIRABLE FIRST STEP.

13. CONCERNING THE BALANCE OF PAYMENTS OUTLOOK FOR  
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1976, POEHL FORESAW SOME FURTHER REDUCTION OF THE  
GERMAN CURRENT ACCOUNT SURPLUS. HE WAS OPTIMISTIC  
REGARDING THE DEVELOPED COUNTRIES AS A GROUP AND SAW  
A FURTHER OIL PRICE INCREASE MAINLY HITTING THE LDC'S.

HILLENBRAND

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## Message Attributes

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